

Message Text

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ACTION EUR-12

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SUBJ: PRIVATE CONSORTIUM LOAN TO PORTUGAL

REF: LISBON 5091, LISBON 4824

1. AGREEMENT SIGNED:
OUTGOING FINANCE MINISTER CONSTANCIO PRESIDED AT AUGUST 17 SIGNING
CEREMONY FOR \$300 MILLION FOREIGN BANK CONSORTIUM LOAN TO PORTUGAL.
LOAN IS THE SECOND LARGE FOREIGN PRIVATE MEDIUM TERM CREDIT SECURED
BY GOP FOLLOWING APRIL IMF AGREEMENT (GOP SIGNED \$150 MILLION
LOAN AGREEMENT WITH GERMAN BANK CONSORTIUM IN JULY). TERMS ARE 7 YEARS

AT ONE PERCENT ABOVE LIBOR. THIRTY-SEVEN EUROPEAN, NORTH AND SOUTH

AMERICAN, AND JAPANESE BANKS ARE PARTICIPATING.

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2. CONSTANCIO HIGHLIGHTS THE POSITIVE:
IN PREPARED STATEMENT, CONSTANCIO SAID ARREEMENT'S SIGNATURE
ATTESTS TO THE PARTICIPANTS' CONFIDENCE IN PORTUGAL'S ECONOMIC
FUTURE. HE ALSO REFERRED TO POSITIVE PORTUGUESE ECONOMIC DEVELOPMENTS
SINCE CONCLUSION OF IMF AGREEMENT, INCLUDING:
-- ATTAINMENT OF BOP BALANCE OF PAYMENTS CURRENT ACCOUNT OBJECTIVE
IN PROGRAM YEAR'S FIRST QUARTER (IE, CY 1978 SECOND QUARTER). (FYI:

THE 1978 SECOND QUARTER CURRENT ACCOUNT DEFICIT WAS \$351 MILLION, OR ALMOST 27 PERCENT LOWER THAN IN CORRESPONDING 1977 PERIOD. END FYI). FIRST HALF 1978 TRADE RESULTS REPRESENT 53 PERCENT OF CY 1978 TARGET CEILING IMPLICIT IN IMF ACCORD. UNSEASONABLY LARGE FIRST QUARTER AGRICULTURAL IMPORTS AND PETROLEUM STOCK BUILDING FOR NEW

REFINERY ACCOUNTED FOR FIRST HALF'S 9 PERCENT GROWTH OVER FIRST SIX MONTHS LAST YEAR. IMPORTS OF THESE COMMODITIES DURING REMAINDER OF 1978

SHOULD BE SIGNIFICANTLY LOWER.

-- EXPORT GROWTH RATE EXCEEDED IMPORT GROWTH RATE IN THE FIRST SEMESTER (15 PERCENT FOR EXPORTS VERSUS 11.8 PERCENT FOR IMPORTS).

-- PRICE INFLATION DURING FIRST SEVEN MONTHS WAS 21 PERCENT OVER SAME PERIOD LAST YEAR, COMPARED TO 27 PERCENT AVERAGE ANNUAL RATE IN 1977.

-- BANK OF PORTUGAL FOREIGN EXCHANGE RESERVES ARE AT HIGHEST LEVEL IN YEARS WHILE, SIMULTANEOUSLY, PROPORTION OF UNENCUMBERED GOLD RESERVES ROSE TO 62.4 PERCENT FROM 51.4 PERCENT IN FEBRUARY.

FIFTY TONS OF GOLD HAVE BEEN MOVED FROM PLEDGED TO FREE RESERVES SINCE FEBRUARY.

-- CENTRAL BANK INTERVENTION IN JULY AND AUGUST RESULTED IN NET FOREIGN EXCHANGE ACCUMULATION FOR FIRST TIME IN YEARS, WITH \$62 MILLION GAIN IN JULY AND AN ADDITIONAL \$67 MILLION DURING AUGUST UNCLASSIFIED

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1-17.

3. AND EXPRESSES HOPE FOR THE FUTURE:

CONSTANCIO POINTED TO FOREGOING POSITIVE DEVELOPMENTS AS EVIDENCE THAT SECOND CONSTITUTIONAL GOVERNMENT'S STABILIZATION POLICIES WERE SOUND. ANSWERING HIS OWN QUESTION, HE SAID HE BELIEVES ANY SUCCESSOR GOVERNMENT IS LIKELY TO RETAIN THE ESSENTIAL ELEMENTS OF THOSE

POLICIES, FIRST BECAUSE REALISTIC ALTERNATIVES ARE LARGELY NONEXISTENT,

AND SECOND BECAUSE NEW GOP WILL BE DEPENDENT ON LEGISLATIVE ASSEMBLY APPROVAL FOR ITS PROGRAM. CONSTANCIO SAID THE PARTIES REPRESENTED IN THE ASSEMBLY RECOGNIZE THE NEED TO RESOLVE THE COUNTRY'S ECONOMIC PROBLEMS IN ORDER TO SAFEGUARD DEMOCRACY; HE BELIEVES THEY WILL ACT RESPONSIBLY AND IN THE COUNTRY'S BEST INTERESTS. ROWELL

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